

Message Text

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PAGE 01 DACCA 01038 010657Z
ACTION H-02

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PASS EB/IFD/ODF JOHN BLANEY

E.O. 11652: N/A
TAGS : EFIN, EAID, OREP, BG
SUBJECT : MISSION COMMENTS ON SENATOR GRAVEL'S
TAXATION PROPOSAL

REF: STATE 009837

1. SUMMARY. MISSION RECEIVED LETTER AND PROPOSAL FROM
SENATOR GRAVEL DATED DECEMBER 14, 1976, AND IS PLEASED
TO RESPOND TO REFTEL PARA 3.

2. ALTHOUGH WE SUPPORT GRAVEL'S CONCEPT OF ENLARGING
RESOURCE TRANSFERS FROM RICH TO POOR COUNTRIES, THE
MECHANISM FOR DOING SO OUTLINED BY THE SENATOR CIRCUM-
VENTS EXISTING CHANNELS AND RAISES MORE PROBLEMS THAN
MAY HAVE BEEN INTENDED. IT IS OF COURSE TRUE THAT THE
MULTINATIONAL CORPORATIONS (MNC'S) HAVE IN MANY INSTANCES
HELPED THE DEVELOPMENT PROCESS, BUT A VERY REAL PRO-
BLEM IS THAT MNC INVOLVEMENT AS SEEN BY NUMEROUS RECI-
PIENT COUNTRY LEADERS HAS CAUSED A DETERIORATION IN
THE DEVELOPMENT PROCESS. THE MNC'S DO REPRESENT A CON-
SIDERABLE TECHNICAL AND RESOURCE TRANSFER BUT IT IS ONE
THAT HAS A SEVERE CAPITAL INTENSIVE BIAS. IN GENERAL
THE THRUST OF THEIR ACTIVITIES IS THE EXTRACTION OF
RAW MATERIALS. IN THOSE COUNTRIES WHERE MNC EMPHASIS
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FALLS UPON PROCESSING AND THE PRODUCTION OF SEMI-PROCE-
SSED GOODS, THE TRANSFER IS MORE EQUITABLE, BUT SUCH
ACTIVITY GENERALLY TAKES PLACE IN A MIDDLE-LEVEL INCOME
DEVELOPING COUNTRY.

3. TWO FEATURES OF THIS PROPOSAL WARRANT DIRECT ATTEN-
TION. FIRST, THE EDUCATION TRUST PROPOSAL MAY WARRANT

FURTHER STUDY AND USAID AND OTHER US INSTITUTIONS COULD BE THE APPROPRIATE VEHICLES FOR PURSUING THESE IDEAS. SECONDLY, THE LDC DEBT BURDEN IS BECOMING INCREASINGLY SEVERE AND MIGHT BE TACKLED DIRECTLY BY CONGRESS.

4. THE TAXATION PROPOSAL CONTAINS A NUMBER OF CONDITIONS PRECEDENT TO RECEIPT OF MNC FUNDS THAT WILL BE VIEWED WITH SUSPICION BY LDC RECIPIENTS. IN THE NAME OF REDRESSING THE MNC IMAGE, SOME OF ITS FEATURES WILL SIMPLY REINFORCE OLDER LDC BIASES. THE PROVISION FOR ALLOWING AN MNC TO CREDIT ONE-SIXTH OF THE NEW TAX AGAINST INVESTMENTS IN LDC'S IS ONE EXAMPLE, SECONDLY, THE "NATIONAL TREATMENT CLAUSE" (ON PAGE 16 OF THE PROPOSAL) CAN BE INTERPRETED TO MEAN ADDED ADVANTAGES FOR PRIVATE FOREIGN INVESTORS. REIMBURSEMENT (PAGE 17) IS ANOTHER SENSITIVE TOPIC AS IS HUMAN RIGHTS (PAGE 21). THE CSCERN ABOUT "STABLE INVESTMENT CLIMATE" (ON PAGE 25) ALSO COULD BE INTERPRETED AS BEING INTERVENTIONIST. THESE ARE ALL LARGE AND DIFFICULT ISSUES THAT REMAIN IN SOME MEASURE UNRESOLVED. THIS TAX PROPOSAL MAY NOT BE THE PROPER VEHICLE FOR ADDRESSING THEM.

5. THE AMOUNT OF TAXATION SUGGESTED BY THIS PROPOSAL IS VERY LARGE AND SUGGESTS THAT ITS ORIGINS, AND ITS BENEFICIARIES, NEED CAREFUL STUDY. WHICH COUNTRIES WOULD "PAY" THIS TAX, AND WHICH WOULD BENEFIT? BOTH NEED TO BE CLEARLY IDENTIFIED FOR NO FORMULA OR SYSTEM OF WEIGHTS IS LIKELY TO WORK.

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6. THE ALLOCATION OF THESE FUNDS THROUGH THE IFI'S AND THE VOLUNTARY AGENCIES (WHICH ARE VERY ACTIVE IN BANGLADESH) ALSO RAISES QUESTIONS, FOR THE USG IS LEARNING THAT IT HAS LITTLE CONTROL OVER THE IFI'S AND THAT AID AND CONGRESS DO NOT NECESSARILY AGREE WITH THE WAY THE IFI'S CHANNEL THEIR DEVELOPMENT FUNDS. VOLAGS ON THE OTHER HAND ARE SMALL SCALE, CONCERNED WITH APPROPRIATE TECHNOLOGY, AND COULD NOT ABSORB THE KINDS OF RESOURCES BEING DISCUSSED.

7. THE GREATEST SHORTCOMING OF THE PAPER FROM AN AID POINT OF VIEW IS ITS LACK OF UNDERSTANDING OF THE LIMITATIONS OF RECIPIENT COUNTRY ABSORPTIVE CAPACITY. RESOURCE TRANSFERS ALONE ARE NOT ALWAYS THE ANSWER TO DEVELOPMENT NEEDS. ENLARGING ABSORPTIVE CAPACITY WITH CAPITAL INTENSIVE TECHNIQUES DOES NOT BENEFIT THE MILLIONS OF RURAL POOR.

8. THE CONCEPT OF MNC INVOLVEMENT IN DEVELOPMENT IS

IMPORTANT AND NEEDS TO BE ENCOURAGED IN ITS PRESENT FORM; I.E., DIRECTLY ON A BILATERAL PRIVATE SECTOR TO PRIVATE SECTOR BASIS. THIS CONTRIBUTION HAS BEEN IMMENSE IN MANY CASES, PARTICULARLY IN THE RELATIVELY RICHER LDCS. MNC INVOLVEMENT IN THE POOREST OF THE POOR COUNTRIES, HOWEVER, SHOULD BE ENCOURAGED WITH GREAT CARE. THESE COUNTRIES ARE STILL FASHIONING THEIR OWN DEVELOPMENT PROGRAMS, ARE SORTING OUT THEIR PRIORITIES VIS-A-VIS FOREIGN COUNTRIES, ARE ENCUMBERED WITH SEVERE ABSORPTIVE CAPACITY PROBLEMS, AND RESENT WHAT THEY SEE AS AN MNC ONE-WAY STREET. THIS PROPOSAL UNFORTUNATELY IS LIKELY TO BE SEEN THAT WAY.

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